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SUBJECT: CODEL BURGESS MEETING WITH MINISTER OF OIL HUSAYN AL-SHAHRISTANI

Classified By: ECONOMIC MINISTER CHARLES P. RIES FOR REASONS 1.5 (b) and (d)

¶1. (C). SUMMARY. On July 22, Congressmen Michael Burgess (R-TX), Steve King (R-IA), Jim Jordan (R-OH), John Carter (R-TX), Kevin Brady (R-TX), and David Davis (R-TN) met with Minister of Oil Husayn al-Shahristani to discuss issues related to the state of Iraq,s petroleum infrastructure, plans to improve the infrastructure and revitalize petroleum exploration and production. Minister Shahristani acknowledged the important role of the petroleum industry in Iraq,s economy and the need for passage of the hydrocarbon-related laws as signaling Iraq,s emergence as a dominant petroleum producing country. END SUMMARY.

¶2. (C). Minister Shahristani introduced the topic of the status of Iraq,s petroleum industry by observing that the industry provides 93% of the country,s budget; that of the 500 known potential petroleum-bearing geophysical structures, only about 80 have been evaluated and expected to make up the majority of the 115 billion barrel reserve; and that of these 80 structures, 10 are "super giants," 10 are "giants," and 10 are "very large" structures. He also stated that most of these 80 structures are currently in production although perhaps not being optimally produced at this time. Shahristani also predicted that of the 500 known structures, 300 will eventually produce commercial quantities of oil.

¶3. (C). Shahristani observed that even though private oil companies have not been willing to work in Iraq as a result of the security situation, the state-owned oil companies have been able to drill some new wells. He also noted that while the level of oil production in the country has not risen as he desired, the rising price oil has allowed Iraq to more or less maintain a level income from exports.

¶4. (C). Shahristani noted successes in having new meters installed in the southern export facilities, but also noted that if problems occur, it is likely the fault of the American company that required an extra year to complete the project. He predicted no interruption in oil exports from the southern facilities, unless problems arise between Iran and the United States. He encouraged the United States and Iran to continue their dialogue to solve issues that impact Iraq.

¶5. (C). A member of the Congressional delegation, having toured the Bayji oil refinery yesterday asked what infrastructure improvements were needed to increase the refinery,s production potential. Shahristani stated that while foreign companies were not willing to work in Iraq due to the current security situation, he has asked that they supply needed equipment, for example for the hydrocracker. He also stated that he is attempting to replace trained workers, originally from the south of the country, who have fled the sectarian violence of the area.

¶6. (C). When asked about the Ministry of Oil,s budget,

Shahristani stated that he had a budget of \$2.2 billion. He complained that the Ministry of Finance had delayed the allocation of funds for the first quarter of the year and those funds were not available until the end of March. In any event, he noted that by the second quarter, he had been able to spend 25% of his budget and expects to spend 85% of his budget by the end of the year.

¶17. (C). Shahristani explained that the Council of Ministers had approved and sent to the Council of Representatives a law that would encourage investment in Iraq's oil refineries; he expected a third reading of this law to occur soon. He expressed support for the Framework Hydrocarbon Law stating that "all the right elements were present in the law" and promised that he would be in the Council of Representatives (CoR) to explain the law. He also stated that while he could not predict what the lawmakers would do, he anticipated its eventual passage. He noted that he had already prepared a list of those fields to be drilled and produced first.

¶18. (C). A member of the delegation asked about Chinese exploration and production contracts. Shahristani answered by explaining that there was one contract in existence with the Chinese, which was legitimate and was signed by the previous regime to develop a small field just south of Baghdad (Adhab) and would produce no more than 100,000 barrels per day of heavy crude. He explained that under the current draft of the framework Hydrocarbon law, such contracts must be reviewed and meet the conditions of the new law. He also stated that this contract would have to be amended and that the production from this field was not for export, but rather to supply crude oil to a refinery planned to be constructed in the area by the Chinese.

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¶19. (C). A member of the delegation asked if the Iraqi people understood that they could become rich from the development of their petroleum resources, if only they would cooperate with each other. Shahristani responded that the people will not understand the details of the various hydrocarbon-related laws, but will follow the impressions created by others and the media. He proceeded to explain that several local media stations are supported by members of Saddam's regime, living mostly in Jordan now, and by the Saudis and Emirates. He characterized as more damaging, the influence of Al-Jazeera. He stated that, in his opinion, Saudi Arabia feels threatened by the prospect of a significant Iraqi contribution to the international oil market; Iraq was not a threat to the Saudis as long as exports remained no greater than 2 to 3 million barrels.

¶10. (C). When asked about exports in the north, Shahristani noted that the exports brought in about \$400,000 per day and that the Bayji refinery has limited production capacity. (Note: In the absence of more explanation that was not provided to the delegation, this statement appears at odds with the fact that the export pipeline to Turkey operates only intermittently. Also, the Bayji refinery capacity is limited primarily by unreliable electricity supply and limited heavy fuel oil storage capability. End Note.) Shahristani also noted that northern exports were at the mercy of the security situation. He stated that the Strategic Infrastructure Brigades (SIBs) were established by a "leader of the insurgency" and that he informed the multi-national forces of this fact. He also stated that contrary to the opinion of the multi-national force commanders, the SIBs cannot be retrained to an effective status. Shahristani stated his expectation that a new effort to contract with local tribal leaders for security of the pipelines will be more effective and lead to a resumption of northern exports in one to two months.

¶11. (C). Addressing Congressional benchmarks, Shahristani said that he expected the Framework Hydrocarbon and Revenue Management Laws to proceed in tandem to the CoR and will be

debated together. He assessed that the refinery investment law, already in the CoR, will be passed soon. He stated that the Kurdish Regional Government (KRG) has reservations about the Revenue Management Law, but that KRG representatives will be in Baghdad in a week, and that he expected the law will go to the CoR within the next 2 to 3 weeks. He also stated that, while no one has objection to the Revenue Management Law in principle, Sunni factions were attacking it for political reasons. Shahristani stated that there was also strong Sunni opposition to the Framework Hydrocarbon Law, but that he agreed with Ambassador Crocker that some Sunni support for the law was needed.

¶12. (C). Shahristani was asked what he was doing to secure the petroleum infrastructure in the event coalition forces left Iraq. He responded that a withdrawal would not impact the southern pipelines and other facilities since Coalition Forces are not now protecting those facilities. As for the northern facilities, he stated that the Bayji refinery could be shut down, but that would have consequences equally adverse for the insurgency.

¶13. (C). Shahristani reiterated that he was working hard to meet the benchmarks, that half of the benchmarks were met and that the other half could be met if government's efforts were supported by the Sunnis, Saudi Arabia, and other Gulf states. He requested that the USG pressure these other entities to stop supporting the groups opposing Iraq's efforts to meet the remaining benchmarks.

¶14. (C). Minister Shahristani concluded the meeting with an expression of determination that Iraq will export to the world oil market "its fair share of resources." He stated that he wanted the American public to know that this conflict was not about oil, but about Islamic fundamentalism. He also stated that Al-Qaeda was a long-term problem for the world.

¶15. (C). CODEL Burgess did not have an opportunity to clear this cable.

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